

ILLINOIS COMMERCE COMMISSION

DOCKET 23-_____

DIRECT TESTIMONY

OF

RONALD D. STAFFORD

Submitted on Behalf

of

**AMEREN ILLINOIS COMPANY
d/b/a Ameren Illinois**

January 20, 2023

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I. INTRODUCTION

A. Witness Identification.

Q. Please state your name and business address.

A. My name is Ronald D. Stafford. My business address is 10 Richard Mark Way,
Collinsville, Illinois 62234.

Q. By whom are you employed and in what capacity?

A. I am employed by Ameren Illinois Company (Ameren Illinois or the Company) as Director,
Regulatory Accounting.

Q. Please describe your educational background and relevant work experience.

A. See my Statement of Qualifications, attached as an Appendix to this testimony.

B. Purpose, Scope and Identification of Exhibits.

Q. What is the purpose of your direct testimony in this proceeding?

A. The purpose of my direct testimony is to provide, and explain the basis for, the revenue
requirement for Ameren Illinois' electric distribution system in conjunction with Ameren Illinois'
Multi-Year Rate Plan Filing. As explained further below, the revenue requirement determines the

level of electric delivery service revenues required to pay operating expenses, to provide for depreciation and taxes, and to permit Ameren Illinois' investors an opportunity to earn a rate of return adequate to maintain credit ratings and attract capital, aligned with investor expectations, and with returns on investments comparable to companies with similar risks. Company witnesses Jonathon O. Jackson and Andy M. Abendroth use this jurisdictional data as the starting point for their class cost of service study and rate design development, respectively. I also discuss the preparation of required Part 285 schedules, and summarize those schedules that I sponsor. I describe adjustments to the Operating Income Statement and rate base. Finally, I discuss Ameren Illinois' revised Tax Allocation Agreement.

Q. Are you sponsoring any exhibits with your direct testimony?

A. Yes. I am sponsoring the following exhibits:

- Ameren Exhibit 2.1 presents Electric revenue requirement for each of the four years 2024 through 2027.
- Ameren Exhibit 2.2 shows 2024-2027 incentive compensation costs related to operational metrics included in the revenue requirement and identifies the amount of incentive compensation costs that have been removed from the revenue requirement.
- Ameren Exhibit 2.3 summarizes charitable contributions by recipient for calendar year 2021.
- Ameren Exhibit 2.4 presents the updated Ameren Tax Allocation Agreement entered into by Ameren Illinois.

Q. What is a Multi-Year Rate Plan?

A. A Multi-Year Rate Plan (Rate Plan) is a component of the Illinois' new performance based ratemaking framework authorized by PA 102-0662 and discussed in more detail by Company witness James Blessing. The Rate Plan establishes the base delivery service rates the Company will charge for each calendar year of the 4-year period to be recovered by the plan, in

this case 2024-2027. Ameren Illinois' Rate Plan is reflected in its exemplar tariff Rate PBR-R, discussed by Mr. Jackson and presented in Ameren Exhibit 12.1. Rate PBR-R also provides for an "Annual Adjustment Amount," which includes both a reconciliation of Ameren Illinois' approved revenue requirement to actual revenue requirement and a Performance Adjustment related to Ameren Illinois' approved performance metrics from Docket 22-0063. This is discussed in more detail by Company witness Julia Ballard.

Q. What are the major differences in the presentation of the Rate Plan revenue requirements as compared to the prior electric formula rate process and traditional ratemaking?

A. The primary difference is that the Rate Plan establishes revenue requirements on a forward looking basis over a four year period. So, rather than developing revenue requirements based on prior year actual costs and filing year projected plant, as in formula rates, or a single historical or future test year, as in traditional ratemaking, the Rate Plan essentially proposes four future test years.

Q. What test years is Ameren Illinois proposing in this case?

A. For the Rate Plan filing, Ameren Illinois is presenting information supporting proposed future test years for each of four twelve month periods ending December 31, 2024, December 31, 2025, December 31, 2026 and December 31, 2027, respectively.

Q. What is the proposed revenue requirement for Ameren Illinois' electric operations?

A. Ameren Illinois has an overall electric delivery service revenue requirement as shown below:

2024: revenue requirement of \$1,282,131,000;

2025: revenue requirement of \$1,373,139,000;

2026: revenue requirement of 1,477,054,000;

2027: revenue requirement of \$1,555,522,000

II. PART 285 SCHEDULES

Q. How is Ameren Illinois presenting the information supporting its proposed revenue requirements given that there are four test years?

A. In a typical presentation of Part 285 Schedules, the schedules provide historical data for a specified period and forecast data for the test year. For the Rate Plan, Ameren Illinois must present additional information for 2025 through 2027. The information provided in the Part 285 A-D schedules that support the calculation of four separate revenue requirements will present the additional information for 2025 through 2027 sequentially, following the information for required historical or forecast periods. Depending on the schedule format, the additional information would be presented in additional columns following the historical and forecast periods (e.g. Schedules B-1, C-1, C-4, D-7), additional rows of the same schedule for 2025 through 2027 following historical/forecast periods (e.g. Schedule D-1 and many of the B-2 and C-2 ratemaking adjustments) or on a separate worksheet (e.g. Schedule C.2 summary of ratemaking adjustments and C-11.2 number of employees for actual and forecast years). To assist the reviewers of the revenue requirement and filing requirement schedules, each schedule is clearly labeled with headings and/or subheadings to identify the historical or forecast period corresponding to the information provided. To summarize, the information provided is in sequential order for 2025 through 2027 when compared with historical and forecast periods (generally 2021 through 2024) and clearly labeled for each historical, forecast, and test year

period to simplify presentation, ease the review process of the revenue requirement and filing requirement schedules, and provide all the necessary information needed to support the additional test year periods 2025 through 2027.

Q. Which witnesses will sponsor the A-C and G schedules?

A. Company witnesses Hector H. Irizarry-Robles (Ameren Ex. 4.0) and I discuss the Accounting Schedules. Specifically, I sponsor the A, B and C Schedules in their entirety, and Schedules G-2 and G-7. Mr. Robles discusses the other G Schedules.

Q. Please generally describe the A Schedules.

A. The A Schedules present summary utility information regarding this rate case filing, including calculation of the requested revenue increase, allocations of costs to lines of business, and allocation factors used in support of Ameren Illinois' jurisdictional electric operations.

Q. Generally, what do the B Schedules show?

A. The B Schedules present Ameren Illinois' electric delivery service rate base and supporting information detailing Ameren Illinois' jurisdictional gas operations. Schedule B-1 presents jurisdictional rate base both with and without adjustments. Schedule B-2 summarizes adjustments detailed elsewhere in the B Schedules. Schedules B-2.1 through B-2.13 detail the adjustments summarized on B-2. Schedule B-8 presents the requested level of Cash Working Capital.

Q. How was Ameren Illinois' test year rate base calculated?

A. Ameren Illinois' test year rate base is an average rate base based on the simple average of year-end balances as shown below, except for Materials and Supplies and Customer Deposits, which are based on a thirteen-month average of test year balances, and Cash Working Capital,

which is based on application of lead-lag study results to test year levels of revenues and expenses.

2024: simple average of December 31, 2023 and December 31, 2024 year-end balances

2025: simple average of December 31, 2024 and December 31, 2025 year-end balances

2026: simple average of December 31, 2025 and December 31, 2026 year-end balances

2027: simple average of December 31, 2026 and December 31, 2027 year-end balances

Q. Please describe the adjustments shown on Schedule B-2.

A. Schedules B-2.1 through B-2.11 present ratemaking adjustments to Utility Plant, Depreciation Reserve, and Accumulated Deferred Income Taxes (ADIT), and other components of rate base, the details of which are discussed further below. Schedules B-2.6 and B-2.8, respectively, present Materials and Supplies and Customer Deposits based on a thirteen-month average basis. Schedule B-2.6 also reduces Materials and Supplies for the portion of the thirteen-month average balance in accounts payable. The Cash Working Capital adjustment applies the results of a lead-lag study shown on Schedule B-8 to test year levels of revenue and expenses.

Q. Generally, what do the C Schedules show?

A. The C Schedules present Ameren Illinois' jurisdictional electric delivery service income statement and supporting information detailing Ameren Illinois' jurisdictional electric distribution operations. Schedule C-1 presents the jurisdictional operating income summary both with and without adjustments. Schedule C-2 summarizes adjustments, which are presented in more detail on Schedules C-2.1 through C-2.22.

Q. Please describe the adjustments shown on Schedule C-2.

A. Schedule C-2 presents ratemaking adjustments intended to establish the appropriate level of test year operating revenues and expenses, which in turn are used to establish the revenue requirement for electric delivery service base rates. For example, adjustments were made to: (i) remove costs that Ameren Illinois is not seeking to recover in this proceeding, such as incentive compensation based on financial performance; and (ii) add costs that are not included, or not fully included, in Ameren Illinois' test year operating expense forecast, but which are appropriate for recovery, such as Company use of fuels and franchise requirements.

Q. You also sponsor Schedules G-2 and G-7. Generally, what do these schedules show?

A. Schedule G-2 is a statement by Kerber, Eck, and Braeckel LLP (KEB), Ameren Illinois' rate case auditor, attesting that the preparation and presentation of the applicable schedules is in compliance with the AICPA Guide for Projected Financial Information issued July 15, 2021. In Docket 22-0621, Ameren Illinois requested, and was granted, a waiver of 83 Ill. Adm. Code 285.7010 so that KEB could use that current version of the AICPA Guide, instead of the now-outdated November 1, 2012 Guide, as the basis for its review. Schedule G-7 calculates the proration of accumulated deferred income taxes presented on Schedule B-9.

III. REVENUE REQUIREMENT PROCESS

Q. What is meant by the term "revenue requirement"?

A. A utility's "revenue requirement" is the sum of its operations and maintenance expenses, depreciation expense, income taxes and taxes other than income taxes, and a return on the utility's rate base. The revenue requirement is determined based on utility revenue and expenses in a "test year." To the extent the revenue requirement exceeds the utility's projected test year revenues at present rates, a revenue deficiency exists, and a rate increase is required.

Q. Please describe the basic steps to calculate the revenue requirement for Ameren Illinois' electric distribution system.

A. First, since Ameren Illinois provides electric and gas service, rate base, revenues, and expenses must be assigned or allocated between the two types of utility service. After isolating the rate base, revenues, and expenses allocable to electric service, those items must be assigned or allocated among business lines and functional cost categories. Some of these costs are related solely to electric distribution service, and these items are directly assigned to distribution. Some costs are incurred solely for electric transmission, and are assigned to transmission. Some costs are assigned to the production and power supply function, but these costs typically relate directly to costs recoverable through Rider PER/HSS or Rider USS and are therefore eliminated. The remaining costs, including portions of both rate base and operating expenses, are common costs, and are assigned or allocated to distribution, transmission, and other functions or lines of business.

Q. Have you considered the effect of purchase accounting on Ameren Illinois' revenue requirement?

A. Yes, I have. In Docket 04-0294, the Commission approved the purchase by Ameren Corporation (Ameren) of all outstanding common and preferred stock of Illinois Power Company. During the reorganization process, Illinois Power proposed, and the Commission approved, accounting entries to eliminate the effects of all purchase accounting related to revising assets and liabilities of the acquired business to their fair values at the time of the acquisition. Later, to effectuate the Ameren Illinois merger, purchase accounting entries were recorded to Ameren Illinois' fourth quarter 2010 balance sheet. Accordingly, the test year rate base and revenue requirement have been adjusted to reflect elimination of purchase accounting.

In addition, goodwill net of purchase accounting has been removed from the common equity balance included in Ameren Illinois' capital structure sponsored by Company witness Darryl T. Sagel.

Q. Please discuss the derivation of state and federal income tax expense.

A. Generally speaking, the amounts of state and federal income tax expense included in the revenue requirement are calculated by applying the statutory state and federal income tax rates effective in the test year to operating income before income taxes. Before the statutory tax rate is applied, the amount of operating income is adjusted to remove the test year balances for amortization of federal investment tax credits and deferred income tax expense. The calculation of test year income tax expense is shown on Schedules C-5a and C-5.2.

Q. Does the test year revenue requirement reflect the 2017 decrease in the federal corporate income tax rate?

A. Yes. Test year revenue requirements reflect amortization of excess or deficient deferred taxes, other than federal unprotected property-related excess deferred income taxes, which are subject to accelerated amortization through Rider EDITA as approved in Docket 21-0738. Company witness Susan E. Keith discusses amortization of excess deferred taxes in her testimony.

IV. REQUESTED REVENUE REQUIREMENT AND RATE BASE

Q. What is Ameren Illinois' proposed electric delivery service revenue requirement?

A. Ameren Illinois' test year revenue requirement and revenue deficiency for each year 2024-2027 is summarized earlier in my Direct Testimony and on Ameren Exhibit 2.1, which presents this electric delivery service revenue requirement. The exhibit includes several

schedules summarizing the development of operating income and rate base. Schedule 1 presents each Test Year's Statements of Operating Income with Adjustments. Schedule 2 summarizes for each Test Year the requested Rate Base with Adjustments and includes a calculation of the requested Cash Working Capital included in Rate Base. Schedule 3 presents the calculation of Interest Synchronization. Schedule 4 provides the calculation of the Gross Revenue Conversion Factor. Schedule 5 presents the Overall Cost of Capital used in the calculation of the revenue requirement for each Test Year. Schedules A, B, C, and D, and other documents required under Subparts D through G of 83 Ill. Admin. Code Part 285, which Ameren Illinois is providing with this filing, further support the requested electric delivery service revenue requirement in total. Ratemaking adjustments to revenues, expenses, and rate base are further detailed in Schedules A through C, as described below.

Q. What is Ameren Illinois' test year rate base?

A. Ameren Illinois' test year rate base is \$4,324,865,000 for 2024, \$4,639,134,000 for 2025, \$4,958,335,000 for 2026, and \$5,278,074,000 for 2027. These amount are composed of the following: (i) Gross Utility Plant in Service less the Accumulated Provision for Depreciation and Amortization of Utility Plant; (ii) Construction Work in Progress (CWIP) Not Subject to AFUDC; (iii) an allowance for Cash Working Capital; (iv) Materials and Supplies Inventory; (v) Deferred Charges Greater than \$3.7 million; (vi) OPEB Liability; and (v) reductions to rate base for ADIT, Customer Advances for Construction, and Customer Deposits, and Other Rate Base Items.

Q. How did Ameren Illinois determine the appropriate amount of General and Intangible plant to include in rate base?

A. General & Intangible (G&I) plant that supports both Ameren Illinois' electric and gas businesses is recorded in electric plant accounts on Ameren Illinois' books and records. Many of the assets recorded in G&I plant accounts serve multiple functions supporting both Ameren Illinois' electric and gas operations and, therefore, cannot be directly assigned entirely to one type of service. Ameren Illinois performed an Asset Separation Process (ASP) in Docket 22-0297 based on G&I plant asset recorded in the electric plant accounts at December 31, 2021. The results of that ASP from Docket 22-0297 is used to allocate G&I plant assets to electric delivery services operations for ratemaking purposes, and specifically for use in developing average test year plant for each year 2024-2027.

Q. How was the ASP performed?

A. Ameren Illinois retained Concentric Energy Advisors to conduct an ASP in Docket 11-0282. The study was updated for changes in investment, asset utilization, and asset retirements in all of Ameren Illinois' electric formula rate cases.

Q. What allocation factors were used in the ASP?

A. The ASP used 14 allocators. Where possible, assets were directly assigned to the appropriate business line. When direct assignment was not possible because an asset is used in more than one line of business, the ASP allocated the cost of the asset based upon factors such as: (i) the number of customers; (ii) the number of employees; (iii) the use of one of Ameren Illinois' office buildings; and (iv) operating & maintenance (O&M) expenses. O&M expense allocators included allocations between: (i) electric transmission, electric distribution and gas (i.e., OMTDG); (ii) electric transmission and electric distribution (i.e., OMTD); and (iii) electric

distribution and gas (i.e., OMDG). Where the ASP determined that a certain asset was no longer employed in any regulated business, the cost of the asset was assigned to the “Retired” classification.

Q. Please summarize the results of the ASP.

A. Total G&I plant assets as of December 31, 2021 were assigned as follows: 8.52% to the electric transmission business; 70.88% to the electric distribution business; 20.57% to the gas business; and the remaining G&I assets were assigned to other, non-regulated business lines.

Q. What does the amount of Customer Advances for Construction shown on the workpaper in support of Schedule B-1 represent?

A. The amount for Customer Advances for Construction represents the balance of cash advances received from customers based on the simple average of test year balances for construction attributable to Ameren Illinois' electric delivery services operations. This amount is deducted from rate base.

Q. How was CWIP Not Subject to AFUDC determined?

A. CWIP Not Subject to AFUDC is presented on Schedule B-7 and further detailed on Schedule WPB-7. Ameren Illinois has included 2017-2021 actual CWIP Not Subject to AFUDC applicable to electric delivery service operations authorized to be included in rate base in the Company's last five Formula Rate Update proceedings, added escalation, calculated a five year average, and then escalated the historical average to restate CWIP into 2022-2027 dollars. Historical pre-2021 CWIP was restated to 2021 dollars using the Consumer Price Index (CPI) for All Urban Consumers which is the same index source used for Injuries and Damages expense adjustments in prior Ameren Illinois Gas Future Test Year proceedings. The 2021 actual

amounts were adjusted by an escalation factor of 8.88 percent for 2022, based on the change in the CPI for January through August 2022 annualized, and 3.81 percent for each year 2023-2027 based on the change in the CPI for the five year period 2018-2022. An adjustment for ADIT corresponding to CWIP included on Schedules B-7 and WPB-7 was calculated using historical information from the same five Formula Rate proceedings. Schedule B-2.11 summarizes the adjustment for ADIT included in rate base.

Q. How was the Cash Working Capital requirement determined?

A. Ameren Illinois has calculated its Cash Working Capital requirement using the Gross Lag methodology in an updated lead/lag study prepared for this case. Company witness Joseph S. Weiss' testimony presents the determination of the Cash Working Capital requirement shown on Schedule B-8 and explains the updated lead/lag study.

Q. Please explain how the unadjusted level of accumulated deferred income taxes shown on Schedule B-9 was determined.

A. Ameren Illinois tracks deferred tax assets and liabilities by the temporary difference between book basis and tax basis that gave rise to the deferred tax asset or liability. Ameren Illinois also tracks the deferred tax assets and liabilities by electric and gas operations. The electric balances are either assigned to Electric or Other, with the portion assigned to electric operations further assigned directly to, or allocated to, electric delivery service, and deducted from rate base based on the simple average of test year balances. In accordance with the Commission's Part 285 instructions, an additional adjustment is shown on Schedule B-9 to reflect the proration adjustment shown on Schedule G-7 for each test year period.

Q. Please summarize how Deferred Charges Greater Than \$3.7M were determined.

A. Actual Deferred Charges Greater Than \$3.7M included on Schedule B-10 were based on actual Storm Deferrals through August 2022 that can be included in rate base under Section 16-105.6 of the Act. For the forecasted period from September 2022 through December 2027, Deferred Storm Costs Greater Than \$3.7M were calculated as part of the Storm Cost ratemaking adjustment presented on Schedule B-2.7 discussed later in my Testimony. In accordance with the Act, Deferred Storm Costs are amortized over 5 years, with one-fifth of the cost included in operating expense each year and the remaining balance included in rate base.

V. RATE MAKING ADJUSTMENTS

A. Expense Only Adjustments

Q. Please explain the adjustment to reflect the cost of the Company's use of fuels shown on Schedule C-2.1.

A. Unadjusted per-books Electric Delivery Services operating expenses do not reflect the electric allocable share of the use of electricity purchased from power providers, as it is charged to Account 555 – Purchased Power, or use of natural gas, as it is charged to Account 804 – Purchased Gas. Therefore, an adjustment has been made to reflect the cost of Ameren Illinois' use of electricity and gas applicable to electric operations in Electric Delivery Services operating expenses account 588. This adjustment is reflected on Schedule C-2.1.

Q. Please describe the adjustment for Franchise Requirements shown on Schedule C-2.2.

A. Under the terms of franchise agreements with various municipalities, Ameren Illinois provides electricity to municipal facilities at no charge, or at discounted prices. Some municipalities also require cash payments from Ameren Illinois, as franchise consideration. The

adjustment shown on Schedule C-2.2 is needed to properly account for these franchise items for ratemaking purposes. First, Ameren Illinois does not reflect the costs of the free or discounted gas in its budgeted operating expenses. The adjustment therefore reflects the free or discounted portion of franchise consideration in distribution O&M expense. Second, the cash payments of franchise fees are recorded in Account 927 – Franchise Requirements. The adjustment reclassifies the portion of franchise consideration related to cash payments in Account 927 to distribution O&M expense Account 588. The Franchise Requirements adjustment results in an increase to operating expenses, net of the portion of electric franchise consideration separately recovered through Rider EF – Excess Franchise.

Q. Please describe the adjustment for Charitable Contributions.

A. Charitable contributions are recorded to a non-operating expense account for FERC reporting. Section 9-227 of the Act provides that the Commission can consider as an operating expense "donations made by a public utility for the public welfare or for charitable scientific, religious or educational purposes, provided that such donations are reasonable in amount." On Schedule C-2.3, Ameren Illinois has included the electric allocable share of Test Years 2024-2027 projected charitable contributions. Ameren Exhibit 2.3 provides the supplemental information on charitable contributions required under Section 325.30(a) of the Commission's rules.

Q. Please describe the adjustment for Uncollectible Expense.

A. Electric Uncollectibles include only the portion of total Ameren Illinois uncollectible expense that is allocable to electric delivery service operations, with the remainder recovered under Rider PER/HSS. Consistent with treatment in recent Ameren Illinois Future Test Year Gas Rate Cases, the Company has calculated net write-offs to electric delivery service revenue based

upon a three-year historical average of net write-offs. The calculation was based on information from 2019 through 2021. This adjustment is presented on Schedule C-2.6. The portion of three-year historical average of net write-offs attributable to Purchased Power is recoverable as a Rider PER/HSS Uncollectible Factor Adjustment discussed in the direct testimony of Ms. Keith.

Q. Have you removed expenses related to Ameren Illinois' electric energy efficiency (EE) program recoverable through Rider EE– Energy Efficiency?

A. Yes. Schedule C-2.7 presents the adjustment to remove forecasted Rider EE costs from Test Year operating expenses.

Q. Have you removed expenses related to Ameren Illinois' Rider CGR/CGC – Customer Generation Rebate/Customer Generation Charge (CGC) recoverable through Rider CGC?

A. Yes. Schedule C-2.8 presents the adjustment to remove Rider CGC costs from Test Year operating expenses.

Q. What ratemaking adjustments were made to Production Retiree costs?

A. A portion of pension and OPEB costs are related to the electric production/power supply function. Such costs do not relate to the electric distribution function, and therefore, are not included for recovery in electric DS revenue requirement and have been removed from operating expenses in Schedule C-2.9. The portion of these costs that have been previously capitalized are removed in Schedule B-2.1 discussed later in my Testimony.

Q. Why are operating expenses increasing because of this adjustment?

A. Forecasted Pension and OPEB expense determined by the Company's actuary to be attributable to retired employees is identified as non-service related costs and Pension and OPEB

expense for active employees is now identified separately as service-related costs. Non-service costs, attributable to retirees, is negative in each of the Test Year periods. Consistent with Financial Accounting Standards Board guidance implemented in January 2018, all non-service related costs are now fully expensed in Ameren Illinois' FERC Form 1. Accordingly, the ratemaking adjustment to remove the negative retiree expense for employees retiring from the production/power supply function results in no adjustment to rate base and an increase to operating expenses. The adjustment for each Test Year period reflects forecasted retiree percentages attributable to the production function for 2022-2027 based on 2017-2021 downward trending actual information from Ameren Illinois' prior Formula Rate proceedings and applies the resulting Production Ratios to forecasted Pension and OPEB expense to calculate the adjustment for each Test Year period. The adjustments are presented on Schedule C-2.9.

Q. Please describe the adjustment for Lobbying Expense shown on Schedule C-2.12.

A. Ameren Illinois has recorded an adjustment to remove from test year operating costs lobbying expenses that were recorded to electric administrative and general expense, rather than to a non-operating expense account, based on 2021 actual amounts. This adjustment is consistent with the adjustment approved in the Company's most recent electric formula rate update proceeding, Docket 22-0297. The 2021 actual amounts were escalated in 2022 based on a factor 8.88 percent using the CPI discussed previously and further adjusted by 3.81 percent for each year 2023-2027 based on the change in the CPI for the five year period 2018-2022.

Q. Please describe the adjustment to Injuries and Damages expense shown on Schedule C-2.13.

A. Consistent with prior Commission-approved practice, Injuries and Damages expense has been adjusted to remove the test year accrual for claims to be paid. The accrual is replaced with a

historical average of actual claims paid for the five-year period 2017-2021. Use of a historical average considers that claims payments vary from year to year. Historical pre-2021 claims paid were restated to 2021 dollars using the change in the CPI to recognize that 2021 costs are higher than pre-2021 costs due to the passage of time. As discussed in the prior response, the 2021 actual amounts were adjusted by an escalation factor of 8.88 percent for 2022 and 3.81 percent for each year 2023-2027.

Q. Please describe the adjustment for pension and OPEB non-service expenses.

A. Pension and OPEB non-service expenses are recorded to non-operating income in the test year forecast to align with SEC reporting. Schedule C-2.15 presents an adjustment to include these expenses in operating expense Account 926 consistent with ICC/FERC reporting.

Q. Have you removed expenses related to Ameren Illinois' Rider TS-Transmission Service?

A. Yes. Schedule C-2.16 presents the adjustment to remove forecasted Rider TS costs included on MISO Transmission Schedule SC-10 from Test Year operating expenses.

Q. Please summarize the Beneficial Electrification adjustment shown on Schedule C-2.17.

A. In Docket 22-0431, the Company filed a Petition for Approval of a Beneficial Electrification Plan pursuant to Section 45 of the Electric Vehicle Act. On November 18, 2022, the Company filed its Surrebuttal Testimony in that proceeding. Schedule C-2.17 presents an adjustment to operating expenses corresponding to evidence submitted in Surrebuttal Testimony and further detailed in WPC 2.17.

Q. Has the Company reflected an adjustment for costs to reduce Peak Load requirements?

A. Yes, Schedule C-2.18 reflects additional O&M expenses for costs such as advertising, customer care, annual software licensing, customer incentive payments, and other related expenses to achieve reductions to Peak Load consistent with Performance Metric 2 approved in the Order in Docket 22-0063.

Q. Are pass-through charges included in Ameren Illinois' electric revenue requirement?

A. No. Ameren Illinois' customers' bills include charges for Illinois assistance programs and municipal utility taxes. Ameren Illinois is responsible for remitting the amounts it collects as a result of these charges to the appropriate governmental or non-profit agencies. These charges are removed from Ameren Illinois' electric revenues and have therefore also been eliminated from operating expenses, as shown on Schedule C-2.21. The only revenue requirement impact of pass-through charges is the rate base amount associated with changes in Cash Working Capital that result from the timing of cash receipt versus payment for these charges.

Q. Has Ameren Illinois made any other adjustments to Test Year operating expenses?

A. Yes. The Company also reviewed other expense adjustments adopted by the Commission in the Company's most recent Formula Rate proceeding in Docket 22-0297. Ameren Illinois has adopted those adjustments here. Schedule C-2.14 summarizes the adjustments, and related workpapers further detail the expenses that Ameren Illinois has self-disallowed. Adjustments based on 2021 actual costs were adjusted by an escalation factor of 8.88 percent for 2022 and 3.81 percent for each year 2023-2027. In addition, there are other adjustments to Test Year

operating expenses discussed later in my Testimony. The adjustment to rate case expense is discussed by Company witness Ms. Keith.

B. Rate Base and Expense Adjustments

Q. Please describe the adjustment for plant additions previously disallowed.

A. Schedule B-2.1 reflects an adjustment for plant additions disallowed in prior electric delivery service rate cases. The adjustment shown on Schedule B-2.1 includes projects disallowed in past cases, with the exception of any projects that have since been retired and which are not included in utility plant in service. Specifically, this adjustment reflects project cost disallowances in Dockets 09-0306, et al (cons.), incentive compensation and performance share unit program (PSUP) costs from Dockets 12-0001 through 22-0297, capitalized production retiree costs from Dockets 12-0001 through 18-0807, and NESC Rework costs from Dockets 12-0001 through 15-0305. Schedule B-2.1 also includes derivative adjustments to accumulated depreciation, ADIT, depreciation expense, and excess deferred tax expense, as reflected on Schedules B-2.5, B-2.11, C-2.19, and C-2.22, respectively.

Q. Please describe the adjustments to short-term incentive compensation.

A. Ameren Illinois is not seeking recovery of short-term incentive compensation costs related to the Short Term Incentive Plan for officers that are based on financial performance goals or are not related to Ameren Illinois' electric and gas operations. The adjustment shown on Schedule B-2 removes from rate base the amount of utility plant related to capitalized costs of Ameren Illinois' short-term incentive compensation for which Ameren Illinois is not seeking recovery in test years 2024-2027. Derivative adjustments to accumulated depreciation, ADIT, and depreciation expense are reflected on Schedules B-2.5, B-2.11, and C-2.19, respectively. The adjustment shown on Schedule C-2.10 removes from Test Year operating expenses short-term

incentive compensation amounts for which Ameren Illinois is not seeking recovery in this case. Company witness Kelly S. Hasenfratz explains incentive compensation, including the short-term incentive compensation plans that Ameren Illinois is seeking to recover the cost of in this proceeding. Exhibit 2.2 shows 2024-2027 incentive compensation expense related to operational metrics included in the revenue requirement and identifies the amount of short-term and long-term incentive compensation costs that have been removed from the revenue requirement

Q. Please describe the adjustments related to long-term incentive compensation.

A. Ameren Illinois is not seeking recovery of the cost of 60% of the 2020 Long Term Incentive Plan (LTIP) tied to financial metrics. The adjustment shown on Schedule B-2.3 removes from rate base the amount of utility plant related to the capitalized costs of the LTIP that Ameren Illinois is not seeking to recover in test years 2024-2027. Derivative adjustments to accumulated depreciation, ADIT, and depreciation expense are reflected on Schedules B-2.5, B-2.11, and C-2.19, respectively. The adjustment shown on Schedule C-2.11 removes from Test Year operating expenses the LTIP costs that Ameren Illinois is not seeking to recover. Ms. Hasenfratz explains the LTIP, including the 30% non-financial performance-related Restricted Stock Unit portion and the 10% Performance Share Unit portion of program costs that the Company is seeking to recover the cost of in this proceeding, as the Commission has approved in past Ameren Illinois rate proceedings.

Q. How have Customer Deposits been reflected in rate base?

A. The balance for Customer Deposits reflects a thirteen-month average for the Test Year periods ending December 31, 2024 through December 31, 2027. This amount represents a source of non-investor supplied funds that has been reflected as a reduction to rate base, as shown on

Schedule B-1. The adjustment shown on Schedule B-2.8 reflects the difference between the thirteen-month average and the December 31, 2024-2027 balances for customer deposits.

Q. Why was a thirteen-month average rather than a simple average balance used for Customer Deposits?

A. The Commission has historically recognized in rates use of a thirteen-month average for customer deposits, rather than a point in time balance or a simple average balance, due to the fact that the balances fluctuate from month to month.

Q. Has Ameren Illinois reflected an adjustment for interest related to Customer Deposits?

A. Yes. It is appropriate for ratemaking purposes to include in operating expense the interest paid by Ameren Illinois on such deposits because the amount deducted from rate base for customer deposits includes an amount for interest at a rate of 5.0% per annum, which is the interest rate established by the Commission for the deposit period beginning January 2023. Accordingly, interest at the rate of 5.0% has been multiplied by the test year customer deposit balance used in the calculation of the rate base and is reflected as an increase to operating expenses on Schedule C-2.5.

Q. Please describe the adjustment for Storm Costs.

A. Under Section 16-105.6 of the Act, Storm Costs for a storm event that exceed \$3.7M are deferred and amortized over 5 years, with one-fifth of the cost included in operating expense each year and the remaining balance included in rate base. The Company has reviewed actual storm expense for the 2017-2021, which represents the five most recently completed calendar years of actual information at the time of this filing, to determine the relationship of storm

expense below \$3.7M that remained in expense accounts to storm expense above \$3.7M that was deferred and amortized. Based on that review, an adjustment was made to defer a portion of forecasted storm expense for the forecast period September 2022 through December 2027. This resulted in an increase in rate base and a reduction to operating expenses for each of the four forecasted Test Year periods. To calculate the adjustments for each year, pre-2021 storm expense was restated to 2021 dollars using the CPI, then a five year average of escalated 2017-2021 balances were averaged. The portion of the historical storm expense that was deferred was segregated from the remaining storm expense. Each of the three data sets (total storm, deferred storm, expensed storm) were adjusted by an escalation factor of 8.88 percent for 2022, based on the change in the CPI for January through August 2022 annualized, and 3.81 percent for each year 2023-2027 based on the change in the CPI for the five year period 2018-2022. The Deferred Storm Costs were reduced for an adjustment to ADIT shown Schedule B-2.11. The expense adjustment for Storms is included on Schedule C-2.4.

C. Rate Base Only Adjustments

Q. Please describe the adjustment to remove costs related to Ameren Illinois' smart devices program.

A. Ameren Illinois has removed costs for the smart devices program because such costs are recoverable through Rider EDR. The costs are recorded in an Intangible Plant account with 76% allocated to electric distribution in the ASP, based on the AMI allocator. The adjustment is shown on Schedule B-2.4. Derivative adjustments to accumulated depreciation, ADIT, and depreciation expense are reflected on Schedules B-2.5, B-2.11, and C-2.19, respectively.

Q. On Schedule B-2, you reference an adjustment for Materials and Supplies shown on Schedule B-2.6. What does this adjustment represent?

513 A. Ameren Illinois has reflected a thirteen-month average balance for general Materials and
514 Supplies allocable to electric distribution operations. The thirteen-month average balance is net
515 of associated accounts payable in accordance with the methodology adopted in prior rate
516 proceedings. The adjustment represents the restatement of December 2021 ending inventory to
517 the thirteen-month average, net of associated inventory remaining in accounts payable.

518 **Q. Why was a thirteen-month average balance used for Material and Supplies, rather**
519 **than a simple average?**

520 A. The Commission has historically recognized in rates use of a thirteen-month average for
521 Materials and Supplies, rather than a point in time balance or a simple average balance, due to
522 the fact that the balances fluctuate from month to month.

523 **Q. Is Ameren Illinois proposing an adjustment to rate base for Cash Working Capital?**

524 A. Yes. Ameren Illinois is proposing an adjustment for Cash Working Capital, calculated
525 using the Gross Lag methodology, as shown on Schedule B-8. The Company is presenting an
526 updated Lead Lag study in this proceeding sponsored by Company witness Joseph S. Weiss.

527 **Q. Please explain how Cash Working Capital for purchased power is recovered.**

528 A. As discussed in the direct testimony of Ms. Keith, the Company is proposing to recover
529 Cash Working Capital for purchased power in Rider PER/HSS, rather than base rates consistent
530 with past electric rate case proceedings. As discussed above, Mr. Weiss further describes
531 development of the requested overall level of Cash Working Capital for Ameren Illinois' electric
532 operations in this proceeding.

Q. Did Ameren Illinois include an adjustment to rate base for OPEB?

A. Consistent with the Commission's treatment in Dockets 09-0306, et al. (Cons.), 12-0001, 12-0293, 13-0301, 14-0317, 15-0305, 16-0262, 17-0197, 18-0807, 19-0436, 20-0381, 21-0365, and 22-0297, Ameren Illinois' rate base has been adjusted by the jurisdictional amount of the Company's OPEB balance from actual year-end 2021 reflected in Docket 22-0297 through the Test Year period ending December 31, 2027. The adjustment is net of ADIT which is summarized on Schedule B-2.11.

Q. Please summarize the Other Rate Base Items – Adjustment shown on Schedule B-2.10.

A. Consistent with the Commission's treatment in prior Formula Rate proceedings, Ameren Illinois has reflected an adjustment to reduce rate base for accrued vacation liability net of ADIT summarized on Schedule B-2.11. The adjustment was calculated based on the 2021 year-end actual liability reflect in rate base in Docket 22-0297 and escalated for 2022 through 2027 based the average increase in forecasted labor rates.

VI. UPDATED TAX ALLOCATION AGREEMENT

Q. What is the Tax Allocation Agreement?

A. The Tax Allocation Agreement is an agreement between Ameren Illinois, Ameren Corporation and various affiliates intended to allocate the consolidated income tax liabilities and benefits to each member of the affiliate group in a fair and equitable manner. The Tax Allocation Agreement is being amended and restated because the current agreement does not account for the significant changes to the Internal Revenue Code implemented by the passage of the Inflation Reduction Act of 2022 (IRA).

Q. Please describe the update to the Tax Allocation Agreement entered into by Ameren Illinois.

A. The IRA is a fundamental shift in federal income tax policy. Just as the current Tax Allocation Agreement does, the amended and restated agreement will provide for fair and reasonable treatment of Ameren Corporation's affiliates given the IRA's changes to federal tax law. The key aspects of the Amended and Restated Tax Allocation Agreement are that 1) the agreement will call for each affiliate to pay its share of any applicable corporate minimum tax based on the proportion of its contribution to the consolidated tax group's adjusted financial statement income, and 2) the agreement will address the transferability of IRA tax credits and ensure that the affiliate whose operations produced the tax credits receives the benefits of those credits. Such a tax allocation agreement that reasonably allocates the IRA tax impacts to the affiliates that create those impacts is essential to providing fair compensation to Ameren and its subsidiaries, and ultimately its customers.

Q. Is Ameren Illinois seeking approval of the updated Tax Allocation Agreement in this proceeding?

A. Yes.

Q. Why is Ameren Illinois seeking approval of the updated Tax Sharing Agreement in this proceeding rather than in a separate filing with the Commission?

A. The Company is requesting approval in this proceeding for administrative efficiency and to recognize that, absent further tax law changes, the IRA will be in effect during the life of new rates approved by the Commission under the Rate Plan.

576 VII. CONCLUSION

577 Q. Does this conclude your direct testimony?

578 A Yes, it does.

APPENDIX
STATEMENT OF QUALIFICATIONS
RONALD D. STAFFORD

I graduated from Ball State University in Indiana with a Bachelor's of Science in Accounting and have a Master's in Business Administration with concentrations in Management and Finance from Southern Illinois University at Edwardsville. I am licensed as a Certified Public Accountant in Illinois.

Prior to joining Ameren Corporation in October 2004, I was continuously employed for over 23 years at American Water, a water/sewer utility service provider operating in more than 20 states. My responsibilities at American Water primarily involved the areas of accounting, budgeting and forecasting, financial analysis, rates, and regulation. My last position at American Water was Director of Rates and Revenue, Assistant Treasurer, and Assistant Comptroller, on behalf of the Illinois and Iowa region companies.

I have previously testified in Ameren Illinois' initial and ten update filings under the electric formula rate structure, in four electric delivery services rate cases and seven gas rate cases for Ameren Illinois in support of the requested revenue requirement. I have also testified in merger related proceedings on behalf of Ameren Illinois, and in numerous water and sewer accounting, rate, regulatory, and acquisition related matters before this Commission. Also, I have previously presented testimony before the Iowa Public Utilities Board, Missouri Public Service Commission, and Public Utilities Commission of Ohio on various accounting, rate, and regulatory matters.

Effective December 1, 2010, I was promoted from Managing Supervisor to Manager of Regulatory Accounting for Ameren Illinois Company. Effective January 1, 2013, the title of my position was changed to Director of Regulatory Accounting. My responsibilities primarily

involve preparation of cost of service studies and development of accounting exhibits and testimony in support of applications for rate changes for Ameren Corporation's electric and gas utilities in Illinois. I also provide assistance to the Senior Director of Regulatory Policy and Rates regarding timing and need for rate cases and effect on financial forecasts of proposed rate changes, and conduct studies to determine the effect on filed tariffs and operating income of various accounting policies and practices, including analysis of results and suggestions for appropriate changes. I also prepare or assist in the preparation of regulatory required reports and exhibits for regulatory commissions, and provide data, answer inquiries, and assist representatives of regulatory commissions in conducting their audits and reviews.